

**COPY**

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF )  
KINGSBURY UTILITY CORPORATION )  
FOR A NEW SCHEDULE OF SEWER )  
UTILITY RATES AND CHARGES )  
UNDER THE PROVISIONS OF I.C. 8-1-2- )  
61.5 )**

**CAUSE NO. 43296-U**

**(SEWER UTILITY)**

**FILED**

**AUG 15 2007**

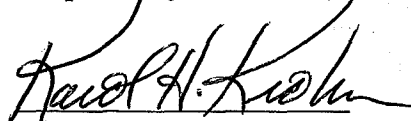
**INDIANA UTILITY  
REGULATORY COMMISSION**

**REPORT OF**

**THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**AUGUST 15, 2007**

**Respectfully submitted,**



**Karol H. Krohn  
Assistant Consumer Counselor**

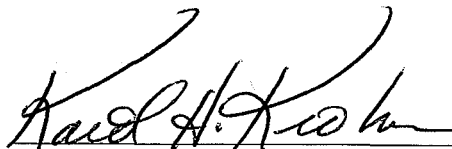
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**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on August 15, 2007.

Jeff Johnson  
Kingsbury Utility Corporation  
P.O. Box 254  
Kingsbury, IN 46345-0254  
[kuc@csinet.net](mailto:kuc@csinet.net)

Thomas A. Teach, President  
OakManor First Homeowners Assoc Inc  
358 E. 650 South  
LaPorte, IN 46350-9396  
[tteach@centuryfoam.com](mailto:tteach@centuryfoam.com)



Karol H. Krohn Atty. No. 5566-82  
Assistant Consumer Counselor

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

115 W. Washington St. Suite 1500 S.

Indianapolis, IN 46204-2215

[infomgt@oucc.in.gov](mailto:infomgt@oucc.in.gov)

317/232-2494 – Phone

317/232-5923 – Facsimile

**KINGSBURY UTILITY CORPORATION  
WASTEWATER UTILITY  
CAUSE No. 43296-U**

**REPORT OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**PREPARED BY:** Richard J. Corey, Utility Analyst II  
Roger A. Pettijohn, Senior Utility Analyst  
Edward R. Kaufman, Senior Utility Analyst

**A. GENERAL BACKGROUND**

Kingsbury Utility Corporation ("Kingsbury" or "the Utility") is a for-profit investor-owned corporation that provides wastewater services to both industrial and residential customers in LaPorte County, Indiana. The Utility's stock is currently owned by Jeffrey L. Johnson. Mr. Johnson also owns Johnson's Johns which hauls septic waste from residential septic tanks, holding tank water and portable toilet waste.

The Utility is regulated by the Indiana Utility Regulatory Commission ("Commission") as to matters of its rates and service as provided by Indiana law. Sewer rates are primarily based on the customer's metered water usage and range from \$3.30 per 1,000 gallons to \$1.58 per 1,000 gallons. Petitioner charges the un-metered residential customers a flat rate of \$16.26 per month for sewer service. Petitioner's current wastewater rates were approved by the Commission in Cause No. 42923-U on April 20, 2006.

On May 17, 2007, Kingsbury filed a petition requesting a 98.59% increase in its sewer rate. The increase requested would equate to a sewer utility rate of \$32.75 per month for a residential customer using 5,000 gallons of water per month. On August 9, 2007, Petitioner revised its filing due to the loss of a major customer after the end of the test year. As revised, Petitioner requested a 121.16% increase in sewer utility rates, for an average monthly sewer utility bill of \$36.49 for a residential customer using 5,000 gallons of water per month.

Petitioner used a test year ending December 31, 2006 and adjusted those amounts to determine its *pro forma* financial needs. The petition for increased rates was filed May 17, 2007. The Commission found that filing to be complete and issued its notice of completion on May 31, 2007.

The OUCC has also updated the test year of 2006 for fixed, known, and measurable changes expected to occur within 12 months of December 31, 2006.

## **B. WASTEWATER UTILITY FACILITIES AND OPERATIONS**

Petitioner's wastewater collection system was originally constructed in the early 1940's to provide service for a United States Army munitions plant covering an area of approximately 3,000 acres. That infrastructure still remains in service, but now serves only about 90 customers, half commercial and half residential. Deerfield Estates, a mature mobile home community consisting of approximately 75 homes, is Petitioner's largest customer. Much of Petitioner's infrastructure, including piping, is oversized for Kingsbury's current customer base, and it is almost fully depreciated.

Petitioner's wastewater plant is a 2.5 million gallon per day two-stage trickling filter plant whereby wastewater passes or trickles through filter media containing biomass on its surface. The biomass contains bacteria to reduce dissolved and suspended waste material. Settled solids are pumped to an aerobic digester for treatment and for eventual land application disposal. Drying beds are also available for wet weather or when soil conditions are unfavorable. Petitioner maintains National Pollutant Discharge Elimination (NPDES) Permit No. IN0045471, which expires October 31, 2011, and Land Application Permit No. IN LA 000732. From a logistics point of view, Petitioner prefers to land apply its sludge on ground it already owns.

Petitioner has a good deal of digester sludge on-site next to the drying beds. Normal operating procedures would direct sludge to the drying beds, often discharging sludge to the drying bed from the digester. Drying beds store and dewater sludge until the sludge can be removed. Petitioner's stored sludge is stable and does not appear to present any environmental hazard on site or in surrounding areas. Petitioner expects to spread the sludge sometime in early fall, after crops are harvested, so the sludge can be used to enrich farmland soil. The on-site sludge is discussed in the IDEM Compliance section of this report. The OUCC also presents recommendations to the Commission regarding Petitioner's sludge removal in the final section of this report.

Petitioner owns and operates three (3) lift stations of varying capacities designated as Central, Oakwood, and Hupp. The Hupp Station has been recently rehabilitated with new pumps, piping, and wiring. The upgrade is used and useful and is included in rate base as well as an aerobic digester that was put in service in January, 2007. These improvements were denied for consideration in Petitioner's last rate case, Cause No. 42923-U, decided in April of 2006, since it was not in-service at the end of the test year Petitioner used in that case.

## **C. IDEM COMPLIANCE**

On September 25, 2003 IDEM issued a Notice of Violation with regard to Kingsbury's NPDES Permit. The violation stemmed from a general failure to properly and adequately maintain operation and collection systems, and specifically for failing to comply with the *E. coli* effluent limit of its NPDES Permit. Petitioner responded with a Compliance Plan that included system improvements along with specific completion dates. Subsequently,

on December 7, 2005, IDEM issued an Agreed Order approving Petitioner's list of "Compliance Tasks" and completion dates. (See Table 1 Compliance Plan Tasks and Completion Dates from IDEM's Agreed Order in Case No. 2003-13154-W, attached to this report as *OUCC Attachment 1.*)

Petitioner completed all but one of the tasks on its Compliance Tasks list. The one task that was not completed (installation of an influent meter, Item II.1.8 on Petitioner's Compliance Tasks list) is no longer required because of a change in the status of Petitioner's NPDES Permit. (See IDEM letter attached as *OUCC Attachment 2.*)

To date, Petitioner has approximately a hundred yards of digester sludge stored on site (on a dry ton basis), with no sludge in the drying beds. Mr. Terry Ressler, IDEM Project Manager, informed the OUCC that a closeout letter from IDEM regarding the December, 2005, Agreed Order, will not be forthcoming until all of the digester sludge has been removed from the site. It will be more cost effective for Petitioner to land-apply its sludge this fall, after crops are harvested, as opposed to paying higher landfill costs for immediate removal. Alternatively, Petitioner could relocate its sludge to the drying beds provided for that purpose for normal storage and dewatering, consistent with standard utility practice.

Given the above circumstances, the OUCC is not recommending any punitive measures be taken against the Petitioner at this time for not already having a closeout letter from IDEM. However, the OUCC makes several recommendations in the final section of this report to verify that any unresolved environmental issues with IDEM are satisfactorily resolved.

#### **D. RATE BASE**

Petitioner's filing in this cause included utility plant (digester) that was not yet in service on December 31, 2006, but which was reported to have been put in service by early February, 2007. The new digester installation was required under Petitioner's agreed order with IDEM. It was up and running when the OUCC conducted its engineering inspection of Petitioner's plant. The OUCC could have opposed the new digester being included in rate base in this case, since it wasn't put in service until after the end of the test year, December 31, 2006. However, a number of factors weighed against exclusion.

First, Petitioner has attempted to keep rate case expenses down by pursuing its rate increase request through a small utility (or "Small U") filing. Second, the installation of a new digester was required under Petitioner's Agreed Order with IDEM. Third, the plant became operational soon after the end of the test year (only 5 or 6 weeks, into 2007). Finally, the OUCC believes that allowing the cost of the new digester to be included in rate base will help postpone Petitioner's next rate case. The OUCC believes the public interest would best be served in this case by allowing Petitioner to include the new digester in plant now – or Petitioner would soon have to file a request for another rate increase, thereby running up additional rate case expenses that all customers would

be required to pay through further rate increases. Since Petitioner has such a small customer base, increased rate case expense has a greater per customer impact on rates than would be the case with a larger utility. Accordingly, the OUCC decided not to challenge the inclusion of the new digester in Petitioner's rate base at this time.

Petitioner's working capital is calculated on Schedule 7 attached to this report. The differences between the OUCC and the Petitioner's calculation of working capital is primarily due to differences between Petitioner and the OUCC's calculated *pro forma* present rate operation and maintenance expenses. In calculating working capital, a reduction is made for purchased power. In this instance, an upward adjustment was made to purchased power for the projected increase in expense associated with the Digester coming on-line. That increase also impacted the OUCC's *pro forma* working capital calculation. An allowance is made for working capital, since the utility owner supplies cash to pay bills prior to receiving income from the sale of utility service. However, since the utility is not billed for purchased power until after the power has been used, and since the utility will have time to submit payment after receiving energy bills, no working capital is needed to cover purchased power expenses. By the time payment is due, the utility will have sufficient revenue from utility sales to cover associated purchased power expenses.

As can be seen on the first page of attached Schedule 1, the OUCC calculated \$3,066 more in rate base than Petitioner. This difference consists of an increase of \$6,268 of plant to reflect capitalized labor and a decrease of \$3,202 to Petitioner's proposed allowance for working capital.

After making the above adjustments, the OUCC arrived at a rate base of \$550,773, including Petitioner's net wastewater utility plant in service, plus working capital. (See attached Schedule 7.)

#### **E. RATE OF RETURN**

##### **E-1. Cost of Debt**

The capital structure presented in Petitioner's accounting report does not show any long-term debt. However, the balance sheet (page 2, line 9) included in the report shows long-term debt of \$186,027. The OUCC informally asked Petitioner to explain the apparent inconsistency. Petitioner's accountant, Mr. John Spiggle, replied as follows:

Concerning your e-mail of 7/23 regarding the long term debt, Jeff Johnson, the Utility's owner, is the issuer of the debt. He has made multiple deposits, more than 3 less than 10, to supply the Utility with funds to pay operating expenses and to refurbish the digester. There is currently no amortization schedule (maturity due date) or provision for interest. The money has been supplied over the 18 or so months leading up to our rate case. The monies were classified as debt as we were unsure

of our options to recoup the funds "loaned" or "invested". We knew of the sensitivity to privately owned Utility debt, so to make sure we addressed this issue, we classified the monies as debt. Please advise as to the OUCC's position, preference and effect on the owner concerning this issue. The initial deposits made by the owner were to pay ongoing operation costs. The last deposit or two was to pay for the digester rehabilitation. We can get exact amounts and uses if needed.

While the \$186,027 is listed as debt on the balance sheet, it does not bear the characteristics associated with debt. For example, no interest is being charged, nor is there a repayment schedule. If these funds are not to be treated as long term debt, the question becomes how should they be treated? To the extent that funds were invested in rate base, it is reasonable to treat these funds as an equity infusion. To the extent that these funds were used to pay near term operating expenses and Petitioner would like to be repaid in the near term, these funds should be treated as a zero cost line of credit. During a phone conversation that took place on July 26, Mr. Spiggle stated that approximately \$70,000 of the increase would be for operating and maintenance expenses and approximately \$116,000 for the digester. Accordingly, the OUCC has treated \$70,000 as a line of credit and \$116,000 as additional paid in capital.

#### **E-2. Cost of Equity**

Petitioner has proposed a cost of equity of 11.0%. Petitioner did not perform a formal cost of equity analysis. Given its small size, the OUCC believes Petitioner's decision to avoid the cost of a formal cost of equity study is prudent. The OUCC has also not performed a formal cost of equity study. While the OUCC does not agree that if it had completed a formal cost of equity study it would have resulted in an 11.0% cost of equity for Petitioner, it accepts Petitioner's proposed cost of equity of 11.0% for the limited purpose of this rate case. Moreover, even a 50 basis point reduction to Petitioner's cost of equity would have only reduced Petitioner's revenue requirements by approximately \$3,800.

#### **F. REVENUE ADJUSTMENTS**

As an adjustment to test year revenue, Petitioner increased unbilled revenue by \$16,616, reflecting revenues Petitioner should have obtained had it billed an affiliated business for wastewater treatment service the Utility provided. The OUCC agrees with that adjustment. (See attached Schedule 5, Adjustment 1.)

The OUCC also made an adjustment to reflect revenue the utility would have received if the rates that were approved in April of 2006 had been in effect for the full test year. The adjustment resulted in a \$2,327 increase in un-metered sales revenue, and an \$18,940 increase in metered sales revenue. (See attached Schedule 5, Adjustment 2.)

As noted above, Petitioner recently lost a major customer, National Liquid Packaging. That loss occurred after the test year and was not expected at the time Petitioner filed this rate case. The OUCC accepts Petitioner's recent amendment to its rate case, decreasing test year *pro forma* metered revenues by \$17,287, to reflect that customer loss. (See attached Schedule 5, Adjustment 3.)

Pursuant to a letter from the Commission regarding informal complaint #69768 dated April 13, 2007, Petitioner is required to refund \$14,814.17 (of which \$9,416 was attributable to the test year) to Deerfield Estates, the amount Petitioner over-billed that customer for water and sewer utility service. Analysis of the overpayment indicates that \$5,836.17 of the excess billings covered sewer service provided during the test year. Accordingly, Petitioner's *pro forma* revenue at present rates was decreased by that amount. (See attached Schedule 5, Adjustment 4.)

### **G. EXPENSE ADJUSTMENTS**

OUCC Utility Analyst Richard J. Corey, reviewed Petitioner's books and records. Mr. Corey's *pro forma* adjustments to Petitioner's test year expenses are detailed on Schedule 6. Following is an overview of those adjustments.

#### **G-1. Salary Expense**

The OUCC recommends that Petitioner's 2006 test year salary expense be increased by \$8,517. This will allow for the addition of a new part-time utility bookkeeper and provide a reasonable salary increase for Petitioner's owner/manager.

Petitioner had proposed an increase of \$9,834 to the owner's salary (\$52,000 *pro forma* less \$42,166 test year multiplied by 50%, splitting the increase equally between the water and sewer utilities). However, the OUCC believes Petitioner's proposed 23% increase over test year salary was excessive. The OUCC calculated *pro forma* salary for the owner by multiplying the salary agreed upon in Cause 42922-U (\$40,000), plus a 4% increase per year for 2 years. This yielded a total *pro forma* salary of \$43,200 for the owner/manager of Petitioner's water and sewer utilities. That amount was then divided equally between the water and sewer utilities, for a total salary of \$21,600 to manage the sewer utility.

#### **G-2. Payroll Taxes**

Petitioner's proposed adjustment to payroll taxes did not consider the effect on FICA of the additional salary paid to Mr. Johnson and to the new part-time bookkeeper, nor did it consider the effect of this additional payroll on state and federal unemployment taxes. The OUCC adjustment to test year payroll tax is calculated by first determining the amount subject to taxation. For unemployment taxes, that amount was \$7,000 for each employee. Mr. Johnson and the part-time bookkeeper were considered employees, devoting half of their time to the sewer utility. The tax rate and test year amounts were



obtained from Petitioner's filing. The OUCC's adjustments to payroll taxes, explained above, are detailed on attached Schedule 6, Adjustment 2.

### **G-3. Employee Health Insurance and Pension**

Petitioner has requested funding for two employees' health insurance expenses without providing cost support for the estimated costs. However, Petitioner already provides health insurance coverage for the two employees who work for both utilities. The cost of that coverage is allocated equally to Petitioner's water and sewer utilities. (See attached Schedule 6, Adjustment 3.)

In its original filing, Petitioner requested an allowance for a proposed employee pension plan of \$3,000 per year. During a field audit, the OUCC requested documentation regarding that plan. The Petitioner was unable to obtain this documentation from the administrator of the plan and agreed to withdraw that portion of its requested rate increase.

### **G-4. Rate Case Expense**

Petitioner has incurred rate case expenses for this "small utility" filing and seeks recovery of estimated Accounting Fees of \$4,000 for each utility. The OUCC accepts the \$4,000 estimate of rate case expense for Petitioner's sewer utility. That total should be recovered over a period of four years, which is the amount of time the Petitioner expects these rates to remain in effect. (See attached Schedule 6, Adjustment 4.)

### **G-5. Maintenance Expense**

Petitioner proposed an adjustment to cover increased maintenance expense associated with bringing its new digester on-line in February, 2007. The OUCC reviewed Petitioner's calculation and finds it reasonable. (See attached Schedule 6, Adjustment 5.)

### **G-6. Depreciation Expense**

Petitioner used accelerated tax depreciation as its book depreciation. The book depreciation rate used was not the Commission's authorized composite rate of 2.5%. It was a combination of various rates. Additionally, depreciation was taken on "non-utility property." For rate-making purposes, the OUCC has used the composite depreciation rate approved by the Commission – 2.5% for sewer utilities with their own treatment plant. The resulting depreciation expense is an increase of \$4,585 over the test year figure. (See attached Schedule 6, Adjustment 6a.)

The OUCC made an additional depreciation expense adjustment to reflect depreciation of assets that had been placed in service between December 31, 2006 and June 30, 2007. That adjustment resulted in a further increase to test year depreciation expense of \$2,232. (See Schedule 6, Adjustment 6b.)

## **G-7. Taxes**

The OUCC disagreed with the Petitioner's allowance for various tax liabilities. Following is an overview of the OUCC's calculation of each tax, indicating the differences between the Petitioner and the OUCC's proposed *pro forma* tax expense calculations.

### **G-7a. State Utility Receipts Tax**

Petitioner did not include State Utility Receipts Tax as an adjustment in its calculation of rates. It did, however, include the Gross Receipts Tax. Relatively recent changes in Indiana tax laws eliminated the Gross Receipts tax of 1.2% of gross receipts and instituted a new Utility Receipts Tax of 1.4% of gross receipts. The Utility Receipts Tax went into effect on January 1, 2003. The OUCC's calculation of that tax liability is shown in Adjustment 7 on attached Schedule 6.

### **G-7b. State Adjusted Gross Income Tax**

Petitioner included the old State Supplemental Net Income Tax (SNIT) of 4.5% in its calculation of taxes based on *pro forma* proposed rates. The OUCC used the current State Income tax rate of 8.5%. The calculation for State Adjusted Net Income Tax is shown in Adjustment 9 on Schedule 6.

### **G-7c. Federal Income Tax**

Petitioner included Federal Income Taxes in calculating its rate increase. Petitioner applied a tax rate of 20%, which the OUCC believes is appropriate. However, the OUCC's *pro forma* present rate calculation of federal income tax differs from Petitioner's due to other differences in *pro forma* adjustments to test year revenues and expenses, yielding a slightly different *pro forma* net income subject to Federal Income Taxes. (See attached Schedule 6, Adjustment 8.)

## **G-8. Charitable Contributions**

The Petitioner made charitable contributions during the test year on behalf of its water and sewer utilities. The following contributions were made: \$150 to Morris for Mayor and \$100 to the LPHS Dugout Club. Since charitable contributions cannot be recovered through rates, the OUCC removed those amounts from Petitioner's test year expenses, allocating the adjustment between the water (41%) and sewer (59%) utilities.

#### **G-9. Capitalization of Digester Labor**

During its audit, the OUCC determined that certain billed labor paid to an affiliated company, Compactor Specialists, should have been capitalized and added to the costs of the new digester. Accordingly, \$6,268 was removed from operation and maintenance expense and added to rate base. (See attached Schedule 6, Adjustment 11, and Schedule 7.)

#### **H. RECOMMENDATIONS**

1. Based on the above accounting adjustments, the OUCC recommends a rate increase of 101.21% for Petitioner's sewer utility, which should produce additional annual revenue of \$169,609, for a net operating income of \$60,585. That represents an 11% return on rate base. However, this recommendation is subject to Petitioner's compliance with the following OUCC engineering recommendation.
2. Petitioner has a good deal of digester sludge on site next to the drying beds. Normal operating procedures would direct sludge to the drying beds, often discharging sludge to the drying bed from the digester. Drying beds store and dewater sludge until the sludge can be removed. Petitioner's stored sludge is stable and does not appear to present any environmental hazard on site or in surrounding areas. Petitioner expects to spread the sludge sometime in early fall, after crops are harvested, so the sludge can be used to enrich farmland soil.

Due to the potential benefit from the intended use of the sludge, the relatively short waiting time until harvest, and the absence of interim health or environmental dangers, the OUCC is not recommending that rates be suspended or that any other punitive action be taken by the Commission at this time. However, the OUCC recommends that Petitioner be required to file a report with the Commission within ten (10) days of completing the required sludge removal. If sworn proof of sludge removal has not been filed by December 15, 2007, the OUCC recommends that the current rate increase be automatically suspended until such time as the sludge has been removed. In that event, Petitioner should be required to file a revised tariff at current rates no later than December 15, 2007. However, if Petitioner later files sworn proof of sludge removal, Petitioner should be permitted to reinstate the rate increase approved in this order by filing a revised tariff, without any further hearing or Order from this Commission.

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Comparison of Petitioner's and OUCC's  
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Sch Ref</u>	<u>OUCC More (Less)</u>
Original Cost rate Base	\$ 547,707	\$ 550,773	7	\$ 3,066
Times: Weighted Cost of Capital	11.00%	11.00%	8	-
Net Operating Income Required for Return on Rate base	60,248	60,585		337
Less: Adjusted Net Operating income	(102,305)	(61,506)	4	40,799
Net Revenue Requirement	162,553	122,091		(40,462)
Gross Revenue Conversion Factor	114.4574%	138.9203%	1	24.4629%
Recommended Revenue Increase	<u>\$ 186,054</u>	<u>\$ 169,609</u>		<u>\$ (16,445)</u>
Recommended Percentage Overall Increase	<u>121.16%</u>	<u>101.21%</u>		<u>-19.94%</u>

<u>Current Rate for 5,000 Gallons</u>	<u>Proposed</u>		<u>OUCC More (Less)</u>
	<u>Petitioner</u>	<u>OUCC</u>	
Current Rate = \$16.5	\$ 36.49	\$ 33.20	\$ (3.29)

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Gross Revenue Conversion Factor**

	<u>Per Petitioner</u>	<u>Per OUCG</u>	
1 Gross revenue Change	100.0000%	100.0000%	\$169,609
2 Less: Bad Debt Rate	<u>0.0050%</u>	<u>0.0000%</u>	0
3 Sub-total	99.9950%	100.0000%	
4 Less: IURC Fee (2007-2008 fee .1315587%)	<u>0.1000000%</u>	<u>0.1315587%</u>	223
5 Income Before State Income taxes	99.895000%	99.868441%	
6 Less: State Income Tax (8.5% of Line 5)	3.4633%	8.4888%	14,398
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.2000%</u>	<u>1.4000%</u>	2,375
8 Income before Federal income Taxes	95.2317%	89.9796%	
9 Less: Federal income Tax (20% of Line 8)	<u>7.8630%</u>	<u>17.9959%</u>	<u>30,523</u>
10 Change in Operating Income	<u>87.3687%</u>	<u>71.9837%</u>	<u>\$122,090</u>
11 Gross Revenue Conversion Factor	<u>114.4574%</u>	<u>138.9203%</u>	

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Reconciliation of Net Operating Income Statement Adjustments**  
*Pro-forma Present Rates*

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Operating Revenues			
Unmetered Sales		\$2,327	2,327
Hauled Waste	\$ 16,616	16,616	-
Metered Revenues	-	18,940	18,940
Lost Customer		(17,287)	(17,287)
Billing Error		(5,836)	(5,836)
Total Operating Revenues	<u>16,616</u>	<u>14,760</u>	<u>(1,856)</u>
O&M Expense			
Salary and Wages	4,917	8,517	3,600
Capitalized Labor		(6,268)	(6,268)
Pension and Benefits	3,000	1,200	(1,800)
Amortization of Rate Case Expense	1,000	1,000	-
Maintenance Expense	33,380	33,380	-
Contributions	-	(148)	(148)
Depreciation Expense	6,416	6,817	401
Payroll Taxes	-	394	394
Utility Receipts Tax		82	82
State Income Tax		(6,924)	(6,924)
Federal Income Tax		(15,376)	(15,376)
Total Operating Expenses	<u>48,713</u>	<u>22,674</u>	<u>(26,039)</u>
Net Operating Income	<u>\$ (32,097)</u>	<u>\$ (7,914)</u>	<u>\$ 24,183</u>

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**COMPARATIVE BALANCE SHEET**  
**As of December 31,**

<b><u>ASSETS</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Utility Plant:		
Collection Sewers - Gravity	\$ 357,878	\$ 357,878
Flow Measuring Devices	3,602	3,602
Treatment and Disposal Equipment	498,105	299,919
Office Furniture and Equipment	914	800
Transportation Equipment	17,290	17,290
Tools, shops & garage Equipment	19,342	15,342
Sub-total	897,131	694,831
Less: Accumulated depreciation	460,867	451,971
Net Utility Plant in Service	436,264	242,860
Construction Work in Progress	0	9,961
Net Utility Plant	436,264	252,821
Other Property And Investments		
Non-Utility Property	83,028	83,028
Less: Accumulated depreciation	83,028	83,028
Total Other Property and Investments	-	-
Current Assets:		
Cash and Cash Equivalents	4,035	28
Accounts Receivable	17,663	11,929
Accounts Receivable from associated companies	0	
Materials and Supplies		
Prepays	0	-
Other Current Assets		
Total Current Assets	21,698	11,957
Deferred Debits		
Total Deferred Debits	-	-
Total Assets	\$ 457,962	\$ 264,778

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**COMPARATIVE BALANCE SHEET**  
**As of December 31,**

<b><u>LIABILITIES</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Equity		
Common Stock Issued	\$ 500	\$ 500
Paid in Capital	562,987	562,987
Retained Earnings	(423,638)	\$ (369,927)
Total Equity	<u>139,849</u>	<u>193,560</u>
Contributions in Aid of Construction	-	
Long-term Debt		
Other Long-term Debt	<u>186,027</u>	<u>52,799</u>
Total Long-term Debt	<u>186,027</u>	<u>52,799</u>
Current Liabilities		
Accounts Payable	75,228	11,376
Accounts Payable to associated companies	49,695	
Accrued Taxes	7,091	7,043
Misc. current and accrued liabilities	72	
Other Current Liabilities	<u>132,086</u>	<u>18,419</u>
Total Liabilities	<u>\$ 457,962</u>	<u>\$ 264,778</u>



**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**COMPARATIVE INCOME STATEMENT**  
**Twelve Months Ended December 31,**

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Unmetered Sales	\$ 19,955	\$ 13,026
Metered Revenues	132,862	104,865
Penalties		
Other	748	1,066
Total Operating Revenues	<u>153,565</u>	<u>118,957</u>
Operating Expenses		
Salaries and Wages - Employees	56,825	37,670
Salaries and Wages -Officers & directors	24,878	23,600
Employee Pension and Benefits	-	-
Bad Debts Expense	-	-
Sewage treatment Expense	3,103	1,860
Purchased Power	25,559	22,958
Telephone	965	1,058
Office Supplies	2,362	2,491
Materials and Supplies	32,191	31,530
Contractual Services	7,639	3,704
Licenses & fees	1,640	260
Transportation Expense	4,570	4,550
Insurance expense	7,450	6,288
Regulatory commission expense	-	-
Legal & Accounting	6,705	9,947
Miscellaneous Expense	11,853	4,795
Total O&M Expense	<u>185,740</u>	<u>150,711</u>
Depreciation Expense	8,896	14,174
Amortization Expense	-	-
Taxes Other than Income		
Property taxes	4,628	4,145
Payroll Taxes	5,632	4,687
Other taxes and Licenses		
Income Taxes		
Utility Receipts Tax	2,261	1,622
State Income Tax		
Federal Income Tax		
Total Operating Expenses	<u>207,157</u>	<u>175,339</u>
Net Operating Income	(53,592)	(56,382)
Other Income (Expense)		
Interest Income	6	4
Gain (Loss) on Sale of Assets		
Misc. non-utility Income (Expense)	(125)	(824)
Bad Debts		
Total Other Income (Expense)	<u>(119)</u>	<u>(820)</u>
Net Income	<u>\$ (53,711)</u>	<u>\$ (57,202)</u>

KINGSBURY UTILITY CORPORATION (Sewer Utility)  
CAUSE NUMBER 43296-U

*Pro-forma* Net Operating Income Statement

	Year Ended 12/31/2006	Adjustments	Sch Ref	Pro-forma Present Rates	Adjustments	Sch Ref	Pro-Forma Proposed Rates
Operating Revenues							
Unmetered Sales	\$ 19,955	\$ 2,327	5-2	\$ 22,282	\$ 22,552	1	\$ 44,834
Metered Revenues	132,862	18,940	5-2	145,295	147,057	1	292,352
Lost Customer		(17,287)	5-3				
Hauled Waste		16,616	5-1				-
Billing Error		(5,836)	5-4				
Penalties	-			-			-
Other	748			748			748
Total Operating Revenues	<u>153,565</u>	<u>14,760</u>		<u>168,325</u>	<u>169,609</u>		<u>337,934</u>
O&M Expense	185,740			223,422			223,422
Salary and Wages		8,517	6-1				
Capitalized Labor		(6,268)	6-11				
Pension and Benefits		1,200	6-3				
Amortization of Rate Case Expense		1,000	6-4				
Maintenance Expense		33,380	6-5				
Contributions		(148)	6-10				
Depreciation Expense	8,896	4,585	6-6a	15,713			15,713
		2,232	6-6b				
Taxes Other than Income							-
Property taxes	4,628			4,628			4,628
Payroll Taxes	5,632	394	6-2	6,026			6,026
Other taxes and Licenses	-			-			
IURC Fee					223	1	223
Income Taxes							
Utility Receipts Tax	2,261	82	6-7	2,343	2,375	1	4,718
State Income Tax	-	(6,924)	6-9	(6,924)	14,398	1	7,474
Federal Income Tax	-	(15,376)	6-8	(15,376)	30,523	1	15,147
Total Operating Expenses	<u>207,157</u>	<u>22,674</u>		<u>229,831</u>	<u>47,519</u>		<u>277,350</u>
Net Operating Income	<u>\$ (53,592)</u>	<u>\$ (7,914)</u>		<u>\$ (61,506)</u>	<u>\$ 122,090</u>		<u>\$ 60,584</u>

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Revenue Adjustments**

(1)

**Hauled Waste**

To adjust revenue for unbilled revenue for treatment of hauled waste.

Johnson Johns - Hauled Waste (2006 gallons)	830,800
Times Rate	<u>\$0.02</u>
Adjustment Increase (Decrease)	<u>\$ 16,616</u>

(2)

**Annualize 2006 Rate Increase**

To normalize revenues for 2006 rate increase which went into effect in May of 2006

	Commercial Metered	Residential Metered	Total Metered	Unmetered
May	\$9,446	\$792	\$10,238	\$1,815
June	14,841	1,186	16,027	2,311
July	12,341	1,053	13,394	2,105
August	13,766	847	14,614	2,084
September	11,980	978	12,958	2,130
October	10,770	792	11,562	1,993
November	9,657	826	10,483	2,073
December	11,098	827	11,925	344
	<u>93,900</u>	<u>7,302</u>	<u>101,201</u>	<u>14,855</u>
Divide by 8 months under new rates			8	8
Multiply by 12 months in year			12	12
Estimated Annual Revenue at 2006 rates			\$151,802	\$22,282
Less: Test Year Revenue			<u>132,862</u>	<u>19,955</u>
Adjustment - Increase			<u>\$18,940</u>	<u>\$2,327</u>

(3)

**Loss of Customer - National Liquid Packaging**

To reflect the effect on revenues of the loss of a major customer. *Pro forma* calculated on minimum charge.

	Meter				Total	
	NAPR1	NAPR2	NAPR2-L	NAPR3	NAPR4	NAPR5
Revenue Going Forward	\$0	\$0	\$0	\$0	\$0	\$0
Less: Test Year Rev.	4,158	407	64	6,667	5,768	223
Adjustment - Decrease	<u>(\$4,158)</u>	<u>(\$407)</u>	<u>(\$64)</u>	<u>(\$6,667)</u>	<u>(\$5,768)</u>	<u>(\$223)</u>
						<u>(\$17,287)</u>

(4)

**Deerfield Estates Over-billing**

To adjust gross revenue for miscalculation of customer billing.

Adjustment Increase (Decrease)	<u>\$ (5,836)</u>
--------------------------------	-------------------

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Expense Adjustments**

(1)

**Salaries and Wages**

To increase salaries and wages for the following:

Jeff Johnson - proposed annual salary	\$43,200
Additional part-time bookkeeper	16,000
	<u>59,200</u>
Divide by 2 to allocate between water and sewer	2
Sewer Utility portion of these two salaries	<u>29,600</u>
Less: Test Year Salary for these two persons as recorded on sewer utility records	21,083
Adjustment Increase (Decrease)	<u>\$ 8,517</u>

(2)

**Payroll Taxes**

To adjust operating expenses to reflect payroll taxes for sewer only.

	FICA	Fed. Unemployment (1st \$7000 x 50% to sewer)	State Unemployment (1st \$7000 x 50% to sewer)	Total
Proposed payroll increase	\$29,600	\$7,000	\$7,000	
Times: Tax rate	7.65%	0.80%	0.15%	
Pro-Forma Payroll Tax	\$2,264	56	11	\$2,331
Less: Test Year (Johnson only)	\$24,878	3,500	3,500	
	7.65%	0.80%	0.15%	
	1,903	28	5	1,936
Adjustment - Increase				<u>\$394</u>

(3)

**Employee Benefits**

To increase benefits not previously recorded in the utility

Health Insurance (\$200 per month x 12 months x 1 employees)	\$2,400
Divided by 2 to allocate between water and sewer	2
Adjustment Increase (Decrease)	<u>\$1,200</u>

(4)

**Rate Case Expense**

To increase Operating Expenses for the estimated cost of this rate case.

Accounting Fees	\$4,000
Amortized over 4 years	4
Annual Expense	1,000
Less: Test Year	0
Adjustment Increase (Decrease)	<u>\$1,000</u>

(5)

**Maintenance Expense**

To increase maintenance expense for expenses of new Digester.

Bulb Replacement	\$1,870
Drying Bed Maintenance:	
Cost of Man & Machine each occurrence	\$2,000
Times 2 maintenance sessions per year	2
Annual Costs	4,000
Power Costs	20,994
Testing Costs	6,516
Adjustment Increase (Decrease)	<u>\$33,380</u>

(6a)

**Depreciation Expense**

To Increase depreciation expense to depreciation on assets in service as of 12/31/06.

Utility Plant in Service (12/31/06) - Sewer - see balance sheet	\$897,131
Less: Pre-1989 assets fully depreciated	357,878
Depreciable Assets	539,253
Times: Depreciation Rate	2.50%
Pro-Forma Depreciation Expense	13,481
Less Test Year	8,896
Adjustment Increase (Decrease)	<u>\$4,585</u>

(6b)

**Depreciation on 2007 Expenditures**

To account for the depreciation of 2007 assets placed in service by 6/30/2007

2007 Capital Expenditures Completed	\$89,270
Times Composite Depreciation Rate	2.50%
	<u>\$2,232</u>

(7)

**Utility Receipts Tax**

To increase Operating expense for Utility Receipts Tax not previously recorded on books of utility.

	Pro forma Present Rates
Gross Revenue	\$168,325
Less: Exemption	1,000
Less: Bad Debts	0
Taxable Revenues	\$167,325
Times 1.4% tax rate	1.40%
URT expense	2,343
Less: Test Year	2,261
Adjustment Increase (Decrease)	\$82

(8)

**Federal Income Tax**

To adjust Federal Income Tax expense not previously recorded on books of utility.

	Pro forma Present Rates
Gross Revenue	\$168,325
Less: Operating Expenses	223,422
Less: Depreciation	15,713
Less: Taxes other than Income	10,654
Net Operating Income before Income Taxes	(81,464)
Less: State Utility Receipts Tax	2,343
Less: State Income Tax	(6,924)
Federal Taxable Income	(76,882)
Times: 20% tax rate	20%
Pro Forma Federal Income Tax Expense	(15,376)
Less: Test year Expense	0
Adjustment Increase (Decrease)	(\$15,376)

(9)

**State Income Tax**

To adjust State Income Tax expense not previously recorded on books of utility.

Net Operating Income before Income Taxes	(\$81,464)
Times Tax Rate	8.50%
Pro Forma State Income Tax Expense	(6,924)
Less: Test Year	0
Adjustment Increase (Decrease)	(\$6,924)

(10)

**Charitable Contributions**

To adjust for disallowed charitable and political contributions.

	<u>Total</u>	<u>Water 41%</u>	<u>Sewer 59%</u>
Allowable Contributions	\$0	\$0	\$0
Less: Contributions	<u>250</u>	<u>103</u>	<u>148</u>
Adjustment Increase (Decrease)	<u><u>(\$250)</u></u>	<u><u>(\$103)</u></u>	<u><u>(\$148)</u></u>

(11)

**Capitalization of Digester Labor**

To capitalize digester labor originally expensed.

Acct 6025 - Payroll to Compactor Specialists - Adjustment (Decrease)	<u><u>(\$6,268)</u></u>
--	-------------------------

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Calculation of Rate Base**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More (Less)</u>
Utility Plant in Service at 12/31/2006	\$897,131	\$897,131	0
Add: Adjustments to UPIS - in service 2007	89,270	89,270	0
Capitalized labor - 2006		6,268	\$6,268
			0
Gross Utility Plant in Service	<u>986,401</u>	<u>992,669</u>	<u>6,268</u>
Less: Accumulated Depreciation	460,867	460,867	0
Contributions in Aid of Construction	-	-	0
			0
Net Utility Plant in Service	<u>525,534</u>	<u>531,802</u>	<u>6,268</u>
Add: Materials & Supplies	-	-	0
Working Capital (see below)	22,173	18,971	(3,202)
			0
Total Original Cost Rate Base	<u><u>\$547,707</u></u>	<u><u>\$550,773</u></u>	<u><u>\$3,066</u></u>

**Working Capital Calculation**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	
Operation & Maintenance Expense	\$ 228,037	\$ 223,422	\$ (4,615)
Less: Sewage Treatment	3,103	3,103	-
Purchased Power - test year	46,553	46,553	-
Purchased Power - adjustment 5, sch 6		20,994	20,994
Rate Case Expense Amortization	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Adjusted Operation & Maintenance Expense	177,381	151,772	16,379
Times 45 Day Factor	<u>0.125</u>	<u>0.125</u>	
Working Capital Requirement	<u><u>\$ 22,173</u></u>	<u><u>\$ 18,971</u></u>	<u><u>\$ (3,202)</u></u>



**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

***Pro forma* Capital Structure**  
**As of December 31, 2006**

	<u>Per Petitioner</u>	<u>OUCC Amount</u>	<u>Percent of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	\$ 139,849	\$ 255,849	100.00%	11.00%	11.00%
Long Term Debt	186,027	-	0.00%		0.00%
Shareholder Loans			0.00%		0.00%
Deferred Income Taxes			0.00%		0.00%
Total	<u>\$ 325,876</u>	<u>\$ 255,849</u>	<u>100.00%</u>		<u>11.00%</u>

**KINGSBURY UTILITY CORPORATION (Sewer Utility)**  
**CAUSE NUMBER 43296-U**

**Current and Proposed Rates and Charges**

	<b><u>Current</u></b>	<b><u>Petitioner Proposed</u></b>	<b><u>OUCC Proposed</u></b>	this needs j need to linl
<b><u>Metered Rates Per Month</u></b>				
First 5,000 Gallons	\$3.30	\$7.30	\$6.64	
Next 10,000 (5,001 - 15,000)	2.91	6.44	5.86	
Next 35,000 (15,001 - 50,000)	2.65	5.86	5.33	
Next 50,000 (50,001 - 100,000)	2.25	4.98	4.53	
Next 100,000 (100,001 - 200,000)	1.99	4.40	4.00	
All amounts over 200,000 gallons	1.58	3.49	3.18	
<b><u>Minimum Rates Per Month</u></b>				
5/8 inch diameter	16.26	35.96	32.72	
3/4 inch diameter	21.27	47.04	42.80	
1 inch diameter	39.11	86.50	78.69	
1 1/4 inch diameter	49.02	108.41	98.63	
1 1/2 inch diameter	51.65	114.23	103.93	
2 inch diameter	114.27	252.72	229.93	
3 inch diameter	212.18	469.26	426.93	
4 inch diameter	408.11	902.58	821.17	
6 inch diameter	816.21	1,805.13	1,642.32	
8 inch diameter	1,305.97	2,888.28	2,627.77	
 <b>Non-Metered Customers - per residential unit</b>				
	16.26	35.96	32.72	
 <b>Hauled Waste</b>				
	0.02	\$0.04	0.04	
<b><u>Non-Recurring Charges</u></b>				

Late Charge

All charges not paid within seventeen (17) days from the due date thereof, as shown on the bills for such charges, shall be subject to a collection or late payment charge in an amount equal to 10% of the first \$3.00 plus 3% of any excess over \$3.00.



Table 1

## Kingsbury Utilities Compliance Plan Tasks and Completion Dates

Item No.	Description	Completion/Milestone Date	Notes
I.1	<u>Written Procedures for Testing Valves and using Tracer Dye:</u> Prepare written procedures to prevent dye and sludge from entering the plant influent and interfering with the UV disinfection system.	Completed 6/24/2005	
II.1	<u>Sludge Drying Beds and Current Sludge Disposal:</u> Obtain landfill approval for disposal of stockpiled sludge and dispose of stockpiled sludge.	Obtain landfill approval within 90 days of the Effective Date of Order, dispose of stockpiles of sludge within 90 days of land fill approval	Prairie View landfill approval obtained on March 7, 2005, approval notice submitted to IDEM with Sludge Disposal and Digester Rehab Plan. 160 yards of sludge disposed of by 6/23/2005.
II.2	<u>Central Lift Station:</u> Complete all necessary improvements to this Lift Station.	Completed 11/1/2004	
II.3	<u>Treatment Plant Bypass at Influent Sewer:</u> Permanently close bypass with brick and non-shrink grout.	Completed 3/15/2005	
II.4	<u>Anaerobic Digester High Level Alarm:</u> Install high level audible alarm with an automatic shut off switch for the sludge pump to prevent accidental overflow of the digester.	Completed 10/31/2005	Installed 10/31/2005
II.5	<u>Sludge Drying Beds Filtrate Drain:</u> Permanently plug drain with brick and non-shrink grout.	Completed 3/15/2005	
II.6	<u>Bar Screen at WWTP Head Works:</u> Install new bar screen.	Completed 11/1/2004	
II.7	<u>Submit an updated NPDES Permit Renewal Application which identifies the Internal Bypasses within the WWTP:</u> Submit NPDES Permit modification application.	Completed 1/31/2006	A NPDES renewal notice was submitted November 10, 2005. A supplemental report identifying internal bypasses was submitted to IDEM on January 1, 2006. The updated permit was effective on November 15, 2006.
II.8	<u>QAQC Program Update:</u> Update QA/QC Manual to include provisions for control charts.	Completed 6/24/2005	
II.9	<u>Raw Influent Pump #2:</u> Replace or rebuild the existing pump.	Completed 10/31/2004	

II.10	<u>Final Clarifier Sludge Pump</u> : Install new final clarifier sludge pump, which will replace the existing pump.	Completed 11/30/2004	
II.11	<u>Primary Clarifier Sludge Collection Equipment</u> : Install new sludge collection equipment including flights, chain, sprockets, drive, and track.	Completed 11/30/2004	
II.12	<u>Secondary Sludge Collector Equipment</u> : Install new sludge collection equipment including flights, chain, sprockets, drive, and track.	Completed 11/30/2004	
II.13	<u>Clean And Inspect Anaerobic Digester</u> : The digester will be cleaned, inspected, and dispose of all sludge removed during this cleaning process.	Substantially by June 30 2007	161 DT of solids disposed in 2007. All Geobags removed. Small amount of biosolids remaining, will be disposed through land fill in 2007
II.14	<u>Sludge Disposal and Digester Rehabilitation Plan</u> : Submit a comprehensive plan for the operation of the digester, and the handling and disposal of sludge to IDEM for review and approval.	3/31/06	SDDR plan submitted to IDEM and updated by March 31, 2006
II.15	<u>Implementation of the Sludge Disposal and Digester Rehabilitation Plan (SDDR Plan)</u> : Implement approved plan.	Construction substantially complete on January 7, 2007	The digester was cleaned and inspected by March 31, 2006. A construction permit application was submitted on June 21, 2006. IDEM responded that a construction permit was not needed on July 10, 2006. Digester conversion to anaerobic operation was substantially complete on January 12, 2007, approximately 6 months ahead of the July 10, 2007 milestone.
II.16	<u>Trickling Filter Splash Plates</u> : Replace all splash plates for the trickling filter nozzles.	Splash plates installed on primary on 6/24/2005, splash plates on secondary will be completed by 12/31/2005	Completed by milestone dates.
II.17	<u>Submit a feasibility study for installation of new raw flow meter</u> . Submit a feasibility study, including an engineering analysis and an economic evaluation, to IDEM for IDEM's review and determination if it is reasonable and economically feasible for the Respondent to install an influent flow meter.	Completed 6/24/2005	

II.7	<p><u>Submit an updated NPDES Permit Renewal Application which identifies the Internal Bypasses within the WWTP.</u></p> <p><u>Submit NPDES Permit modification application.</u></p>	1/31/2006	<p>A NPDES renewal notice was submitted November 10, 2005. A supplemental report identifying internal bypasses was submitted to IDEM on January 1, 2006. The updated permit was effective on November 15, 2006.</p>
II.8	<p><u>QA/QC Program Update: Update QA/QC Manual to include provisions for control charts.</u></p>	Completed 6/24/2005	
II.9	<p><u>Raw Influent Pump #2: Replace or rebuild the existing pump.</u></p>	Completed 10/31/2004	
II.10	<p><u>Final Clarifier Sludge Pump: Install new final clarifier sludge pump, which will replace the existing pump.</u></p>	Completed 11/30/2004	
II.11	<p><u>Primary Clarifier Sludge Collection Equipment: Install new sludge collection equipment including flights, chain, sprockets, drive, and track.</u></p>	Completed 11/30/2004	
II.12	<p><u>Secondary Sludge Collector Equipment: Install new sludge collection equipment including flights, chain, sprockets, drive, and track.</u></p>	Completed 11/30/2004	
II.13	<p><u>Clean And Inspect Anaerobic Digester: The digester will be cleaned, inspected, and dispose of all sludge removed during this cleaning process.</u></p>	<p>Clean and Inspect by 7/31/06; and Dispose of all Removed Sludge by 10/31/06</p>	<p>Digester was cleaned and inspected by April 30, 2006. By June 15, 2006, 51 dry tons had been disposed utilizing KUC's newly obtained land application permit.</p>

II.14	<u>Sludge Disposal and Digester Rehabilitation Plan</u> : Submit a comprehensive plan for the operation of the digester, and the handling and disposal of sludge to IDEM for review and approval.	3/31/06	SDDR plan submitted to IDEM and updated by March 31, 2006
II.15	<u>Implementation of the Sludge Disposal and Digester Rehabilitation Plan (SDDR Plan)</u> : Implement approved plan.	In accordance with the milestone dates identified within the SDDR Plan	The digester was cleaned and inspected by March 31, 2006. A construction permit application was submitted on June 21, 2006. IDEM responded that a construction permit was not needed on July 10, 2006. Digester conversion to anaerobic operation was substantially complete on January 12, 2007, approximately 6 months ahead of the July 10, 2006 milestone.
II.16	<u>Trickling Filter Splash Plates</u> : Replace all splash plates for the trickling filter nozzles.	Splash plates installed on primary on 6/24/2005, splash plates on secondary will be completed by 12/31/2005	Completed by milestone dates.
II.17	<u>Submit a feasibility study for installation of new raw flow meter</u> . Submit a feasibility study, including an engineering analysis and an economic evaluation, to IDEM for IDEM's review and determination if it is reasonable and economically feasible for the Respondent to install an influent flow meter.	Completed 6/24/2005	



II.18	<u>Install Raw Influent Flow Meter</u> : Complete installation of raw influent flow meter.	If IDEM determines that it is reasonable and economically feasible, then within 60 days of the Respondent's receipt of written notification from IDEM.	IDEM determined that a raw flow meter is not required.
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INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

*We make Indiana a cleaner, healthier place to live.*

CAUSE NO. 43296-U

PAGE 1 OF 1

Mitchell E. Daniels, Jr.  
Governor

Thomas W. Easterly  
Commissioner

January 23, 2007

100 North Senate Avenue  
Indianapolis, Indiana 46204-2251  
(317) 232-8603  
(800) 451-6027  
[www.IN.gov/idem](http://www.IN.gov/idem)

Jeffery L. Johnson, President  
Kingsbury Utilities Corporation  
P.O. Box 254  
Kingsbury, IN 46345-0254

Re: Agreed Order  
Kingsbury Utility Corporation  
Case No. 2003-13154-W

Dear Mr. Johnson:

This is to inform you that in response to your May 6, 2006 submittal, IDEM has conducted a further review of the requirement for you to install an influent flow meter. IDEM initially notified you on March 21, 2006, that it was reasonable and economically feasible for you to install and operate an influent flow meter at your wastewater treatment plant. On November 14, 2006, Kingsbury Utility was issued a new NPDES permit which re-classified your facility as a Class B industrial wastewater treatment plant. The monitoring and reporting requirements of your new NPDES permit are slightly different from your prior NPDES permit and do not specifically require influent flow monitoring. Therefore, although influent flow would be helpful in process control, IDEM will not require you to install an influent flow meter at this time.

The remainder of the Agreed Order remains in effect, including Items 13 and 14 of the Compliance Plan which require you to clean and inspect your anaerobic digester, and to submit a Sludge Disposal and Digester Rehabilitation Plan. Your November 29, 2005 submittal indicated that you had decided to obtain a land application permit and land apply the stockpiles of sludge beginning in the spring of 2006. On May 18, 2006, IDEM's Office of Land Quality issued a Land Application Permit for Kingsbury Utility (INLA 000732). Please submit an update on the above noted Items 13 and 14 of the Compliance Plan, including a schedule to complete the cleaning and inspection of your anaerobic digester, and the proper disposal of the stockpiles of sludge.

If you have any questions, please contact Terry Ressler, case manager, at 317/232-8433.  
Thank you for your cooperation in these matters.

Sincerely,

Mark W. Stanifer, Chief  
Water Enforcement Section  
Office of Enforcement